

## GYPSUM

### BACKGROUND

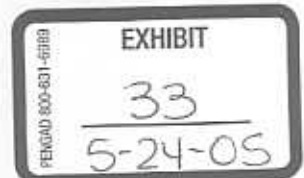
On April 4, 2005, Governor Sanford and officials with Santee Cooper and Georgetown County announced a major economic development initiative with American Gypsum Company to build a wallboard plant in Georgetown County. The plant will be built next to the Winyah Generating Station. Santee Cooper's coal-fired plants at Cross and Winyah which generate a synthetic gypsum byproduct as a result of using scrubbing technology to reduce sulfur dioxide emissions. American Gypsum will use this gypsum and excess steam produced by the power plants to produce wallboard.

Over the past 5 years, Santee Cooper was contacted off and on by wallboard manufacturers about Santee Cooper's gypsum byproduct, which it first began producing in 1999. Until recently, the wallboard manufacturers were not offering to purchase the gypsum, but only to take it off Santee Cooper's hands, either for Santee Cooper to pay them to take it or to simply to remove it from Santee Cooper's property. In 2003, Santee Cooper sent a request for bids to a number of wallboard manufacturers to sell the gypsum, but the bids were not acceptable. In March and May of 2004, more interest was expressed in the gypsum.

8/6/04 5:02 p.m.: Email from Dan Salisbury, Director of Real Estate at USG Corporation to Richard Coen. "As discussed please note the following e-mail sent today to Secretary Bob Faith." Email to Bob Faith from Dominic A. Dannessa. "USG strongly feels that our proposal . . . provides the best overall economic development value to the State . . . the community . . . and the best value, with lowest risk to Santee Cooper. . . I thought it would be helpful to send you a copy of our first proposal to Santee Cooper. . . The negotiating process with Santee Cooper had no formal written structure and was not typical for a project of this size. We are accustomed to negotiating a letter of intent that provides a framework to complete negotiations and to perform the appropriate due diligence. . ."

8/6/04 6:20 p.m.: Email from Richard Coen. "Bill and John, Please email me or overnite me everything you have on the proposed gypsum plant and sale of raw material. . . Do not make any commitments to anyone without the full board's approval."

8/9/04 10:17 A.M.: Email from Lonnie Carter to Richard Coen. "You may recall at the July Board meeting that Bill gave a brief report on where we were with the negotiations. We reported that the negotiations were at the point where Santee Cooper needed to sign within a few days an exclusive letter of intent with one of the prospects. . . DOC has been involved in the discussions and indicates that it has no preference over the two prospects. From the state's prospective, both are equal. . . Since there is no preference by the DOC, Santee Cooper has signed a letter of intent with the prospect that gave us the best price for our



gypsum. . . .Graham and I each received a call on Friday from Scott English in the Governor's Office regarding a call from the prospect that didn't get the letter of intent. We expected this might happen. . . . We explained that the unsuccessful party was about 60 cents a ton below the prospect that we have gone with. . . .Scott understood and seemed fine with the way things had been handled. . . ."

8/11/04 6:47 p.m.: Email from Guerry Green to Lonnie Carter. "'I feel as though I should be aware of everything going on with the gypsum plant. The proposed site is in my county and I know very little of the details. . . . I believe that our property division is acting entirely independent of the board. Our concerns about getting the most dollars for our property has been discussed at several board meetings but the mailing was completed without our input. Have you seen the flier? It is pitiful. . . ."

8/11/04 12:55 p.m.: Email from Richard Coen to Chairman and management. "Please read the cover letter to Sec. Faith carefully. They say the bid process was very informal. The board should have had a copy of the information. There was a very recent brief discussion but we had no idea the deal was this large and had such far reaching economic impacts. . . .I do feel as though the board knows very little about this sizable transaction and that more information should have been provided . . . . I mean really, what is going on here? Let's keep the agenda focused on what really matters and trust that your board will support you and we can be successful together with full disclosure on all relevant items. If the information and the process we followed were perfect, I still believe the board was once again left in the dark on relevant board business and I have a real problem with history repeating itself. This needs to be addressed and remedied for the good of the company and 'risk management'. We can not manage if we are not informed."

8/12/04 9:22 a.m. Email from Lonnie Carter to Richard Coen, copied to directors and management. "I believe the process was fair and consistent for both prospects. However, I am open to hearing how we can improve the process that we have been using. As you requested, I put this on the agenda for the up coming Board meeting to brief the Board with as much detail as desired and receive the Board's direction. . . ."

8/12/04 11:33 a.m.: Email from Richard Coen to Lonnie Carter, copied to directors and management. "Lonnie, Thank you for the response. . . . Graham, Lonnie, Bill, John, and Elaine, Once again, do not proceed with finalizing this deal without full knowledge and approval from the board. This is a twenty year deal and we want to understand the process to receive the bids. Based on what I have seen, the project may need to be rebid. The same thing is likely to occur with the property sales. The Chairman and management must respect opinion of the other board members or else. . . .Please communicate openly,

provide full disclosure on all board business and stop making board decisions unilaterally with the benefit of the boards knowledge and opinion and ultimately our decision. . . . You need to meet, determine who or what is the problem and report your findings to the full board for action. RHC"

8/12/04 6:41 p.m.: Email from Richard Coen to Lonnie Carter. "Graham, I just got a call from Sec. of Commerce Bob Faith. He said you called and expressed concern that he had not "followed the appropriate channels" concerning his conversations with me regarding the gypsum deal. He said that he is not comfortable with the representations or disclosures that Santee Cooper made to the prospective bidders and that there was no formal bid process or RFP. This leaves the board and Santee Cooper wide open to criticism and contingent liabilities. Who is driving this deal and why has the board been left out of the particulars of this very important process. Sec. Faith also stated that you had a conference call with the governor's office and commerce in which you stated that the correct process was followed and that you were going to sign a letter of intent. DO NOT SIGN THAT LETTER. To my knowledge the board has not authorized anyone to sign anything regarding this transaction."

8/12/04 8:37 a.m.: Email from Lonnie Carter to Guerry Green. "We will be ready to discuss both the property sales and the wallboard plant at the August 23<sup>rd</sup> Board meeting in as much deal (sic) as the Board desires. I though we were keeping you informed at the right level on the wall board plant developments. . . ."

8/12/04 2:21 p.m.: Email from Dial DuBose to Richard Coen and Lonnie Carter. "Richard, I don't want you and Guerry to feel like you are alone in your concerns. I too am frustrated about the information we receive and more importantly the information we don't receive! Communication or the lack thereof is a problem I thought we put behind us. Thank you for raising these issues, the Board should be grateful for your vigilance. Thanks, Dial."

8/13/04 9:24 a.m.: Email from Lonnie Carter to Richard Coen. "We had good conversation yesterday with the Governor's Office and DOC representatives. . . .At the end of the discussion we all agreed that we were on track to get the best value and deal for the State. . . .Before any final conclusions are drawn, I ask that management be given an opportunity to explain what we have done to this point and why. We are prepared to do this at the August 23<sup>rd</sup> Board meeting or before if needed. If the Board finds that we need to correct, enhance or change, I assure you we will. . . ."

8/13/04 9:58 a.m.: Email from Keith Munson to management and directors, copied to Scott English of Governor's office and Bob Faith, Secretary of Commerce. "Ladies and Gentlemen: I have review the recent barrage of emails on the Gypsum Plant issues and would like everyone to know my reaction to various points . . . ."

- 8/13/04 11:18 a.m.: Email from Bob Faith to directors and management, copied to Scott English. "Gents, My only comments are that my guys tell me that DOC felt kept out of the loop on which company was going to be picked. I think we did err in having incentive discussions with the company but my guys felt a bit misled that building a plant to use the gypsum was a foregone conclusion and that shipping the gypsum out of state was a viable alternative. We now believe that is not true. We are now informing the companies that they should not expect any state incentives. While it is not our call, the counties should consider whether it is appropriate for them . . ."
- 8/14/04 10:41 a.m.: Email from Graham Edwards to Richard Coen and Lonnie Carter, copied to directors and management. "It appears that the potential gyp plant has attracted a great deal of interest over the past. So you will know, I had the same briefings on this issue from April to July as the rest of the Board. . . I asked Bill and Lonnie not to proceed any further with any letter of intent until the Board had an opportunity to hear full details on this issue at the August 23<sup>rd</sup> meeting. . ."
- 8/15/04 10:11 a.m.: Email from Richard to Lonnie Carter, copied to directors. "I understand that you want to present the gypsum transaction to the full board and that is what should happen. . . Management needs to concentrate on public power. These are board issues and we need a competent third party review for all our benefit. . ."
- 8/15/04 10:54 a.m.: Email from Clarence Davis to Richard Coen and Lonnie Carter. "[I]f this information is available, we need to see a detailed analysis or breakdown of the competing economic impact variables, which include, among others, capital investment. . . Negotiating power is one thing, but to negotiate the entry of an entire industry into the State is another 'ball game'. No offense, but I have serious questions about our ability or expertise to do this or make this decision alone. . ."

## **RESULT:**

September 2, 2004: Inter-office communication from Lonnie Carter to Board. This will confirm our understandings from the August 23, 2004 meeting regarding how management is to proceed with the gypsum economic development effort. We understand . . . Management is authorized to sign a letter of intent with Company A.

April 4, 2005: Governor Mark Sanford and officials with Santee Cooper and Georgetown announced a major economic development initiative with American Gypsum Company to build a new \$125 million gypsum wallboard plant in Georgetown County.

**ISSUES:**

(1) **Micro management.** Does the Board understand the role of management and the role of the Board of Directors.

(2) Does one director, other than the chairman, have the authority to make decisions on behalf of the Board? Lack of confidence in management. Political influence. What message does this send to other unsuccessful parties if the Board does not show support of its management?



From: Lonnie Carter  
To: Richard Coen  
Date: 8/9/04 10:17AM  
Subject: RE: Gypsum / Confidential

Richard,

Santee Cooper, in conjunction with the Dept of Commerce ("DOC"), the Charleston Regional Development Alliance and Berkeley and Georgetown Counties, has been talking with two prospects about a potential wallboard plant. You may recall that we have reported on this to the Board at several meetings including our July meeting.

Santee Cooper cannot produce enough gypsum for both prospects. The prospects are looking at locating their plant near Winyah or Cross station. We have agreed to make sites available at either. We are indifferent to which station is chosen, because we will have to haul from the other station to meet either of the prospect's gypsum requirements. Also keep in mind, that Berkeley and Georgetown Counties are vying for it to locate in their county.

You may recall at the July Board meeting that Bill gave a brief report on where we were with the negotiations. We reported that the negotiations were at the point where Santee Cooper needed to sign within a few days an exclusive letter of intent with one of the prospects. This is necessary for the successful prospect to complete the remainder of its plans for location selection and the negotiation of incentives (if any) from DOC and the counties. DOC has been involved in the discussions and indicates that it has no preference over the two prospects. From the state's prospective, both are equal.

Since there is no preference by the DOC, Santee Cooper has signed a letter of intent with the prospect that gave us the best price for our gypsum. This will allow the negotiations to proceed with DOC and the Counties. We will work on an agreement to sell them gypsum at the negotiated price subject to the prospects site selection. They have until the end of December 2004 to complete the process or we can go back to the other prospect. We have tried to keep a good relationship with the unsuccessful bidder just in case this becomes necessary.

Graham and I each received a call on Friday from Scott English in the Governor's Office regarding a call from the prospect that didn't get the letter of intent. We expected this might happen. Since Graham, Bill and I were together at the County Association meeting, we called Scott to fill him in on where we are with the project. We explained that the unsuccessful party was about 60 cents a ton below the prospect that we have gone with. This is a material difference. The unsuccessful party was given a chance to improve their offer with a last best offer that left them the 60 cents short. They apparently are now telling the Governor's Office that they will meet our price. This is too little too late. We negotiated in good faith with both. Now the unsuccessful party wants a "second bite of the apple". Scott understood and seemed fine with the way things had been handled.

I called Tim Dangerfield Friday also to make him aware of Scott's call. He indicated that his office had been contacted Thursday evening by the Governor's Office on the project. He also indicated that DOC sees no difference in the prospects and that Santee Cooper should have chosen on price. Keep in mind Tim's staff has been involved in these discussions. Tim expressed his appreciation for Santee Cooper's support of the project and agreed to call me if he needed anything.

We are excited about this project and are looking forward to completing the negotiations and participating in the announcement. This is a good example of how Santee Cooper is a good resource in supporting the State's economic development efforts.

We are also working on selling gypsum as fertilizer. We have already sold some to this market earlier this year. We have received feedback that the product needs to be dryer. We are working on this aspect of our operation to see if we can get the product dryer. RM met a gentleman at the County Association meeting last Thursday who wants to meet with us to discuss gypsum and the agricultural market for it.

RM is following up on this marketing opportunity. This is a good market since it has the potential to take any gypsum that we have left over from our sales to the cement industry and wallboard plant.

As these discussions progress we will continue to keep the Board informed. Please keep in mind these negotiations are confidential. If you would like additional details, please let me know.

Thanks  
Lonnie

>>> "Richard Coen" <rcoen@coencapital.com> 08/06/04 06:20PM >>>  
Bill and John,

Please email me or overnite me everything you have on the proposed gypsum plant and sale of raw material.

Please make sure the information is complete.

If any other board members want information, they will make the request.

Is this on the agenda for the next meeting?

Do not make any commitments to anyone without the full board's approval.

Thank you,

RHC

From: Lonnie Carter  
To: Green, Guerry  
Date: 8/12/04 8:37AM  
Subject: Re: Gypsum / Confidential

Guerry,

I will call you today. I don't have all the answers to your questions but will get them. We will be ready to discuss both the property sales and the wall board plant at the August 23rd Board meeting in as much detail as the Board desires.

I thought we were keeping you informed at the right level on the wall board plant developments. I want to reiterate Santee Cooper does not have a preference for either site. My understanding is that we are working with the counties to make sites available at both stations. Since neither plant is in our service territory, Berkeley Coop or Santee Coop will serve depending on the location. I don't know if those discussions have started.

I will call you.

Thanks  
Lonnie

>>> Guerry Green <guerry@screenlight.com> 08/11/04 06:47PM >>>

Hey Lonnie, I would like to get the same package as Richard. Also, why did the Charleston Regional Alliance get invited and not NESAs? Georgetown county is part of the Northeastern Strategic Alliance. The perception is that Santee Cooper favors the Berkeley county site. This perception is strengthened when Berkeley is given an advantage by having representation from the county and their alliance. Also, are there any other site visits by either gypsum plant personally planned? I would like to participate in the future. I feel as though I should be aware of everything going on with the gypsum plant. The proposed site is in my county and I know very little of the details. For example, where was it proposed that the plant be situated, Where would the power come from, Santee Coop or Santee Cooper? Why can't the prospect use our access roads? SEFA uses them. What were the proposed lease terms? How did they differ from Berkeley county? Where did the misinformation regarding salt water infiltration come from? (Obviously not someone favorable to the Winyah site) Which plant has more gypsum available? Winyah or Cross?

Also, I don't want to be too negative but I was embarrassed by the flier that was sent out on the property for sale. I got the flier from a third party and thought that the entire board should have gotten a packet to see how we were marketing our property. I believe that our property division is acting entirely independent of the board. Our concerns about getting the most dollars for our property has been discussed at several board meetings but the mailing was completed without our input. Have you seen the flier? It is pitiful. If the property belonged to you or myself we would not expect to get top dollar presenting the property in the manner presented. I have talked to executives from Centex and D.R Horton, neither got a package on the property. I still have not seen any advertisements in any newspapers. Are we advertising? How often? Which papers? Are the only people getting information on the property people who happened to acquire about property in general? What about companies or individuals who would have an interest in the property if they knew it was available? If we don't let the public know that the property is available then we risk bias in accepting any bids. How do I know that the asking price for the



properties in question is fair? I would like a copy of the appraisal. Should not the property committee have already received the appraisal? Did management contact any likely buyers for the property other than general inquiries? Does management have a prospect list of likely buyers? Lonnie, I hate to hit you with all of this but I believe my concerns and questions are valid. Call me Thursday if you can.

Thanks,

Guerry

At 03:58 PM 08/09/2004 -0400, you wrote:

>Clarence,

>

>Based on the information we have from DOC the prospect's direct jobs are

>approximately 66 at the site with another 125 to 150 indirect jobs. I

>believe a number of the indirect jobs are in the transportation of raw

>materials and finished product. The capital investment projection is \$110

>million. DOC is using an average wage of \$15 per hour in their

>calculations. I understand the prospect has not given a number for wages.

>

>There may be other spin off industry besides trucking. I am not familiar

>with wallboard plants. We will follow up with DOC to see what they

>know. There is the possibility that Santee Cooper could sell steam for

>drying.

>

>Please remember this information is confidential and would hurt our

>negotiations if disclosed.

>

>Thanks

>Lonnie

>

>>> "Clarence Davis" <clarence.davis@nelsonmullins.com> 08/09/04 10:27AM >>>

>Out of curiosity, what is the job creation number and the average wage?

>Also, what is the projected capital investment? Additionally, am curious as

>to the gross revenue dollar value of this market in the U.S., if any of this

>is known.

>Clarence Davis

>

>-----Original Message-----

>From: Lonnie Carter <LNCARTER@santeecooper.com>

>To: rcoen@coencapital.com <rcoen@coencapital.com>

>CC: paul.campbell@alcoa.com <paul.campbell@alcoa.com>;

>tgrahamedwards@aol.com <tgrahamedwards@aol.com>; drsanders1@charter.net

><drsanders1@charter.net>; kgore@firstseinsurance.com

><kgore@firstseinsurance.com>; dialdubose@nalleyproperties.com

><dialdubose@nalleyproperties.com>; Clarence Davis

><clarence.davis@nelsonmullins.com>; Bill McCall <BMCCALL@santeecooper.com>;

>Elaine Peterson <EGPETERS@santeecooper.com>; John West

><JSWEST@santeecooper.com>; Pam Gaskins <PMGASKIN@santeecooper.com>; R.M.

>Singletary <RMSINGLE@santeecooper.com>; Susie Gillians

><SBGILLIA@santeecooper.com>; jcland@sc.rr.com <jcland@sc.rr.com>;

>pallen@sc.rr.com <pallen@sc.rr.com>; guerry@screentight.com

><guerry@screentight.com>; kmunson@wcsr.com <kmunson@wcsr.com>

>Sent: Mon Aug 09 10:16:47 2004

>Subject: RE: Gypsum / Confidential

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>Thanks  
>Lonnie

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> >>> "Richard Coen" <[rcoen@coencapital.com](mailto:rcoen@coencapital.com)> 08/06/04 06:20PM >>>

>Bill and John,

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>Please make sure the information is complete.

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>If any other board members want information, they will make the request.

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>Is this on the agenda for the next meeting?

>

>Do not make any commitments to anyone without the full board's approval.

>

>Thank you,

>

>RHC

>

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>

>From: John West [<mailto:JSWEST@santeecooper.com>]

>Sent: Friday, August 06, 2004 12:54 PM

>To: [RRizzi@BroadStreetAdvisors.com](mailto:RRizzi@BroadStreetAdvisors.com); [jsgrant@coencapital.com](mailto:jsgrant@coencapital.com);

>[rcoen@coencapital.com](mailto:rcoen@coencapital.com); Lonnie Carter

>Cc: [dialdubose@nalleyproperties.com](mailto:dialdubose@nalleyproperties.com); Elaine Peterson; Pam Gaskins

>Subject: RE: Eastport PIP

>

>

>

>Lonnie is out of the office. I am putting a fed-ex package in the mail today  
>for Monday morning delivery. It won't fax well. If you have any questions,

From: "Richard Coen" <rcoen@coencapital.com>  
To: "Lonnie Carter" <LNCARTER@santeecooper.com>  
Date: 8/12/04 6:41PM  
Subject: RE: FW: Santee Cooper / Confidential

Graham,

I just got a call from Sec. of Commerce Bob Faith.

He said you called and expressed concern that he had not "followed the appropriate channels" concerning his conversations with me regarding the gypsum deal.

He said that he is not comfortable with the representations or disclosures that Santee Cooper made to the prospective bidders and that there was no formal bid process or RFP.

This leaves the board and Santee Cooper wide open to criticism and contingent liabilities.

Who is driving this deal and why has the board been left out of the particulars of this very important process.

Sec. Faith also stated that you had a conference call with the governor's office and commerce in which you stated that the correct process was followed and that you were going to sign a letter of intent.

DO NOT SIGN THAT LETTER.

To my knowledge the board has not authorized anyone to sign anything regarding this transaction.

Richard H. Coen

-----Original Message-----

From: Richard Coen [mailto:rcoen@coencapital.com]

Sent: Thursday, August 12, 2004 11:33 AM

To: 'Lonnie Carter'

Cc: 'paul.campbell@alcoa.com'; 'drsanders1@charter.net';

'dialdubose@nalleyproperties.com'; 'CXD@nmrs.com'; 'Bill McCall'; 'Elaine

Peterson'; 'John West'; 'Pam Gaskins'; 'R.M. Singletary'; 'Susie Gillians';

'Graham Edwards'; 'jcland@sc.rr.com'; 'pallen@sc.rr.com';

'guerry@screentight.com'; 'kmunson@wcsr.com'

Subject: RE: FW: Santee Cooper / Confidential

Lonnie,

Thank you for your response.

I will review the information upon receipt.

RHC

Graham, Lonnie, Bill, John, and Elaine,

Once again, do not proceed with finalizing this deal without full knowledge and approval from the board.

This is a twenty year deal and we want to understand the process to receive the bids.

Based on what I have seen, the project may need to be rebid.

The same thing is likely to occur with the property sales.

The Chairman and management must respect opinion of the other board members or else.

We have a fiduciary responsibility to the state and we will not jeopardize that responsibility.

Please communicate openly, provide full disclosure on all board business, and stop making board decisions unilaterally without the benefit of the boards knowledge and opinion and ultimately our decision. The next meeting is a very important meeting for you all. You need to meet, determine who or what is the problem and report your findings to the full board for action.  
RHC

-----Original Message-----

From: Lonnie Carter [mailto:LNCARTER@santeecooper.com]

Sent: Thursday, August 12, 2004 9:22 AM

To: rcoen@coencapital.com

Cc: paul.campbell@alcoa.com; drsanders1@charter.net;

dialdubose@nalleyproperties.com; CXD@nmrs.com; Bill McCall; Elaine Peterson;

John West; Pam Gaskins; R.M. Singletary; Susie Gillians; Graham Edwards;

jcland@sc.rr.com; pallen@sc.rr.com; guerry@screentight.com; kmunson@wcsr.com

Subject: Re: FW: Santee Cooper / Confidential

Richard,

As we discussed yesterday after our meeting with Central, I am having the information you requested pulled together. The process used was a negotiation so every thing will not be in the written record. The prospects tell us what their needs are and we respond as to how Santee Cooper can meet them. I have asked my staff to provide summaries where appropriate which hopefully will make your review easier; however, we will provide all of the file that we have.

I believe the process was fair and consistent for both prospects. However, I am open to hearing how we can improve the process that we have been using. As you requested, I put this on the agenda for the up coming Board meeting to brief the Board with as much detail as desired and receive the Board's direction.

Please keep in mind that this is still a negotiation to locate this wallboard prospect. Santee Cooper has agreed to a letter of intent to sell gypsum at a price. There are may details (some by Santee Cooper and some by others) that must be worked out to get the prospect here. These discussions should be kept confidential.

We have a conference call with the Governor's Office staff and DOC staff to brief the Governor's Office staff on the project. This is to follow up to our discussion with Scott English in the Governor's Office last Friday.

We will pull the information you requested as soon as possible. I have asked my folks to try to get it to you no latter than early next week so you can review it before the Board meeting.

Thanks  
Lonnie



>>> "Richard Coen" <rcoen@coencapital.com> 08/11/04 12:55AM >>>  
Graham, Lonnie, Bill and John,

Please read the cover letter to Sec. Faith carefully.

They say the bid process was very informal.

The board should have had a copy of the information.

There was a very recent brief discussion but we had no idea the deal was this large and had such far reaching economic impacts.

They can not value the gypsum without answers to the questions on the last page of their proposal which includes costs of land, electricity, transportation, gas, water, incentives etc.

If this information was made available on the front end to all bidders, they are sore losers.

If not, they are correct, the process was flawed and should be rebid.

I want to see the bid documents, RFP, and all related information that was provided or communicated so that I can judge for myself.

I need this ASAP per my prior email

.When can you get this to me?

In the meantime, I would like for you to respond to them on my behalf by saying that some of the members of the board of directors have asked for additional information in response to their inquiry and that you are responding to that request.

I do feel as though the board knows very little about this sizable transaction and that more information should have been provided in lieu of the presentations of "what we are not being sued for or the "Harrell Report on the Proposed Santee Cooper Sale" six months after it was published !

I mean really, what is going on here?

Let's keep the agenda focused on what really matters and trust that your board will support you and we can be successful together with full

disclosure on all relevant items.

If the information and the process we followed were perfect, I still believe the board was once again left in the dark on relevant board business and I have a real problem with history repeating itself. This needs to be addressed and remedied for the good of the company and "risk management".

We can not manage if we are not informed.

Your board would be most appreciative.

RHC

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From: Salisbury, Dan [mailto:DSalisbury@usg.com]  
 Sent: Friday, August 06, 2004 5:02 PM  
 To: 'rcoen@coencapital.com'  
 Subject: FW: Santee Cooper

Richard, thank you for the opportunity of speaking with you this afternoon. As discussed please note the following e-mail sent today to Secretary Bob Faith. I will follow with contact information for Dom Dannessa on Monday morning.

Dan N. Salisbury  
 Director Real Estate  
 USG Corporation  
 125 S. Franklin St.  
 Chicago, IL 60606  
 312-606-5945  
 Fax: 312-606-3879  
 Cell: 312-961-4219  
 E-mail: DSalisbury@usg.com

-----Original Message-----

From: Salisbury, Dan

Sent: Friday, August 06, 2004 2:10 PM

To: Bob Faith (bfaith@commerce.state.sc.us)

Cc: Hal Stone (hstone@SCcommerce.com); 'sdenglish@sc.gov'

Subject: Santee Cooper

Dear Secretary Faith;

Thank you for taking the time out of your busy schedule to speak with me on Tuesday, August 3rd. USG strongly feels that our proposal for a new wallboard plant at Winyah provides the best overall economic development value to the State of South Carolina, the community of Georgetown, and the best value, with lowest risk to Santee Cooper. This project, having an estimated cost of \$137 million, will provide direct employment for 150, 450 direct and indirect, and provide estimated ten year economic impact benefits of over \$450 million. We have provided a faxed copy of the economic impact analysis for our plant in Rainier, Oregon for your reference. This value can be maximized, and the risks mitigated, only when you agree to partner with the Industry Leader, who has proven technical superiority. USG has the experience (104 years), management credibility, proven track record and marketing position that allows us to make and carry out these commitments. We do not believe any other wallboard company can make this claim.

Due to some of your questions regarding USG's intent to construct a greenfield wallboard plant, I thought it would be helpful to send you a copy of our first proposal to Santee Cooper which was presented on June 3rd. USG has never wavered from our initial proposal of building a wallboard plant. Furthermore, it is economically infeasible to ship the synthetic gypsum to other USG locations. Hopefully this presentation will help to clarify any questions that anyone may have regarding USG's intent. We identified the Winyah site as the preferred site location due to its better infrastructure, supply of natural gas, rail, etc. Although it inherently requires a sixty mile distance penalty for our customer shipments, we understand that it is the preferred location from the perspective of economic development impact on the community and region. The Cross location, although preferable in terms of access to the interstate system, will require very high capital costs to install the necessary infrastructure (gas pipelines will have to be installed from over twenty miles away). These costs (including cost sharing by the State and Santee Cooper) will have to be considered in evaluating competitive proposals.

The quoted price for synthetic gypsum (based on subsequent negotiations with Santee Cooper) and capital cost estimates have been refined since our proposal was initially presented. The capital cost estimate for building

this facility is now estimated at \$137 million. Negotiations on synthetic gypsum price began at \$4.00/ton on June 3rd, were raised to \$5.00/ton on July 12th, and \$5.90/ton on July 27th. We remain prepared to meet the \$6.75/ton price (or higher) requested by Santee Cooper, and as confirmed during my telephone conversation with Bill McCall on August 2nd.

The negotiating process with Santee Cooper had no formal written structure and was not typical for a project of this size. We are accustomed to negotiating a letter of intent that provides a framework to complete negotiations and to perform the appropriate due diligence. This is followed by a detailed capital appropriation, based on site specific engineering, and is then submitted to our Board of Directors for approval. This contrasts sharply with predating everything on a dollar per ton basis which inherently is based on incomplete information. We were operating on the basis of what we were told would be the procedure, i.e. we were involved in a negotiation on price that would culminate in a Letter of Intent with Santee Cooper, and were told that we would be advised when Santee Cooper wanted to terminate our discussions and begin price discussions in earnest with another party. We never received such notice. I was told by Bill McCall while making arrangements to meet on July 27th that we would receive another opportunity to quote after our meeting and that our meeting was not the final opportunity for USG to raise the price. We were disappointed that we never received a phone call providing this opportunity.

We look forward to building on the strong distribution foundation that we already have in South Carolina through our wholly owned L & W Distribution, who has 14 locations and employ 185 hourly and 75 salaried personnel. This is indicative of the strength that USG has in the market and demonstrates why USG has the marketing position to deliver on its promises.

We trust that USG will be given an opportunity to demonstrate our capabilities as detailed above and look forward to further discussions with you on our proposal.

At his request we are also sending a copy of this e-mail to Scott English of Governor Sanford's office. We appreciate your assistance in this matter.

Respectfully,

Dominic A. Dannessa

Snr. VP Manufacturing

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**CC:** <paul.campbell@alcoa.com>, <drsanders1@charter.net>, <dialdubose@nalleyproperties.com>, <CXD@nmrs.com>, "Bill McCall" <BMCCALL@santeecooper.com>, "Elaine Peterson" <EGPETERS@santeecooper.com>, "John West" <JSWEST@santeecooper.com>, "Pam Gaskins" <PMGASKIN@santeecooper.com>, "R.M. Singletary" <RMSINGLE@santeecooper.com>, "Susie Gillians" <SBGILLIA@santeecooper.com>, "Graham Edwards" <TGEDWARD@santeecooper.com>, <jcland@sc.rr.com>, <pallen@sc.rr.com>, <guerry@screentight.com>, <kmunson@wcsr.com>



From: "Dial Dubose" <dialdubose@nalleyproperties.com>  
To: "Richard Coen" <rcoen@coencapital.com>, "Lonnie Carter"  
<LNCARTER@santeecooper.com>  
Date: 8/12/04 2:21PM  
Subject: RE: FW: Santee Cooper / Confidential

Richard,

I don't want you and Guerry to feel like you are alone in your concerns. I too am frustrated about the information we receive and more importantly the information we don't receive! Communication or the lack thereof is a problem I thought we put behind us. Thank you for raising these issues, the Board should be grateful for your vigilance.  
Thanks,

Dial

Original Message-----

From: Richard Coen [mailto:rcoen@coencapital.com]  
Sent: Thursday, August 12, 2004 12:33 PM  
To: 'Lonnie Carter'  
Cc: paul.campbell@alcoa.com; drsanders1@charter.net;  
dialdubose@nalleyproperties.com; CXD@nmrs.com; 'Bill McCall'; 'Elaine Peterson'; 'John West'; 'Pam Gaskins'; 'R.M. Singletary'; 'Susie Gillians'; 'Graham Edwards'; jcland@sc.rr.com; pallen@sc.rr.com; guerry@screentight.com; kmunson@wcsr.com  
Subject: RE: FW: Santee Cooper / Confidential

Lonnie,

Thank you for your response.  
I will review the information upon receipt.  
RHC

Graham, Lonnie, Bill, John, and Elaine,

Once again, do not proceed with finalizing this deal without full knowledge and approval from the board.

This is a twenty year deal and we want to understand the process to receive the bids.

Based on what I have seen, the project may need to be rebid.

The same thing is likely to occur with the property sales.

The Chairman and management must respect opinion of the other board members or else.

We have a fiduciary responsibility to the state and we will not jeopardize that responsibility.

Please communicate openly, provide full disclosure on all board business, and stop making board decisions unilaterally without the benefit of the boards knowledge and opinion and ultimately our decision.

The next meeting is a very important meeting for you all.

You need to meet, determine who or what is the problem and report your findings to the full board for action.

RHC

-----Original Message-----

From: Lonnie Carter [mailto:LNCARTER@santeecooper.com]

Sent: Thursday, August 12, 2004 9:22 AM

To: rcoen@coencapital.com

Cc: paul.campbell@alcoa.com; drsanders1@charter.net;

dialdubose@nalleyproperties.com; CXD@nmrs.com; Bill McCall; Elaine Peterson;

John West; Pam Gaskins; R.M. Singletary; Susie Gillians; Graham Edwards;

jcland@sc.rr.com; pallen@sc.rr.com; guerry@screentight.com; kmunson@wcsr.com

Subject: Re: FW: Santee Cooper / Confidential

Richard,

As we discussed yesterday after our meeting with Central, I am having the information you requested pulled together. The process used was a negotiation so every thing will not be in the written record. The prospects tell us what their needs are and we respond as to how Santee Cooper can meet them. I have asked my staff to provide summaries where appropriate which hopefully will make your review easier; however, we will provide all of the file that we have.

I believe the process was fair and consistent for both prospects. However, I am open to hearing how we can improve the process that we have been using. As you requested, I put this on the agenda for the up coming Board meeting to brief the Board with as much detail as desired and receive the Board's direction.

Please keep in mind that this is still a negotiation to locate this wallboard prospect. Santee Cooper has agreed to a letter of intent to sell gypsum at a price. There are many details (some by Santee Cooper and some by others) that must be worked out to get the prospect here. These discussions should be kept confidential.

We have a conference call with the Governor's Office staff and DOC staff to brief the Governor's Office staff on the project. This is to follow up to our discussion with Scott English in the Governor's Office last Friday.

We will pull the information you requested as soon as possible. I have asked my folks to try to get it to you no later than early next week so you can review it before the Board meeting.

Thanks  
Lonnie

>>> "Richard Coen" <rcoen@coencapital.com> 08/11/04 12:55AM >>>  
Graham, Lonnie, Bill and John,

Please read the cover letter to Sec. Faith carefully.

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They can not value the gypsum without answers to the questions on the last page of their proposal which includes costs of land, electricity, transportation, gas, water, incentives etc.

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I want to see the bid documents, RFP, and all related information that was provided or communicated so that I can judge for myself.

I need this ASAP per my prior email

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I do feel as though the board knows very little about this sizable transaction and that more information should have been provided in lieu of the presentations of "what we are not being sued for or the "Harrell Report on the Proposed Santee Cooper Sale" six months after it was published !

I mean really, what is going on here?

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RHC

---

From: Salisbury, Dan [mailto:DSalisbury@usg.com]  
Sent: Friday, August 06, 2004 5:02 PM  
To: 'rcoen@coencapital.com'  
Subject: FW: Santee Cooper

Richard, thank you for the opportunity of speaking with you this afternoon. As discussed please note the following e-mail sent today to Secretary Bob Faith. I will follow with contact information for Dom Dannelsa on Monday morning.

Dan N. Salisbury

Director Real Estate

USG Corporation

125 S. Franklin St.

Chicago, IL 60606

312-606-5945

Fax: 312-606-3879

Cell: 312-961-4219

E-mail: DSalisbury@usg.com

-----Original Message-----

From: Salisbury, Dan

Sent: Friday, August 06, 2004 2:10 PM

To: Bob Faith (bfaith@commerce.state.sc.us)  
Cc: Hal Stone (hstone@SCcommerce.com); 'sdenglish@sc.gov'  
Subject: Santee Cooper

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We look forward to building on the strong distribution foundation that we already have in South Carolina through our wholly owned L & W Distribution, who has 14 locations and employ 185 hourly and 75 salaried personnel. This is indicative of the strength that USG has in the market and demonstrates why USG has the marketing position to deliver on its promises.

We trust that USG will be given an opportunity to demonstrate our capabilities as detailed above and look forward to further discussions with you on our proposal.

At his request we are also sending a copy of this e-mail to Scott English of Governor Sanford's office. We appreciate your assistance in this matter.

Respectfully,

Dominic A. Dannaesa

Snr. VP Manufacturing

---

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proprietary, privileged, confidential or otherwise legally exempt from disclosure. If you are not the named addressee, you are not authorized to read, print, retain, copy or disseminate this message or any part of it. If you have received this message in error, please notify the sender immediately either by phone or reply to this e-mail, and delete all copies of this message.

CC: <paul.campbell@alcoa.com>, <drsanders1@charter.net>, <CXD@nmrs.com>, "Bill McCall" <BMCCALL@santeecooper.com>, "Elaine Peterson" <EGPETERS@santeecooper.com>, "John West" <JSWEST@santeecooper.com>, "Pam Gaskins" <PMGASKIN@santeecooper.com>, "R.M. Singletary" <RMSINGLE@santeecooper.com>, "Susie Gillians" <SBGILLIA@santeecooper.com>, "Graham Edwards" <TGEDWARD@santeecooper.com>, <jcland@sc.rr.com>, <pallen@sc.rr.com>, <guerry@screentight.com>, <kmunson@wcsr.com>

From: Lonnie Carter  
To: Richard Coen  
Date: 8/13/04 9:24AM  
Subject: RE: FW: Santee Cooper / Confidential

Richard,

I just talked with RM and Bill. We believe that we will have everything no later than Monday. It is possible we may have everything today. Making sure we have all the email has been difficult. Once we have the information together, I will call each of you to determine delivery.

We had good conversation yesterday with the Governor's Office and DOC representatives. We agreed that it is important to the State and Santee Cooper to locate one of these prospects. Santee Cooper's gypsum is an essential element to locating the prospect. DOC is concerned about the State incentives necessary to locate the prospect. At the end of the discussion we all agreed that we were on track to get the best value and deal for the State. We agreed that we will continue our joint focus.

Before any final conclusions are drawn, I ask that management be given an opportunity to explain what we have done to this point and why. We are prepared to do this at the August 23rd Board meeting or before if needed. If the Board finds that we need to correct, enhance or change, I assure you we will. We have no written commitment so we can change if necessary.

We remain focused on getting one of the prospects to our State with the best overall deal.

Lonnie

>>> "Richard Coen" <rcoen@coencapital.com> 08/12/04 06:49PM >>>

Lonnie

When will Guerry and I receive the information we requested.

Thank you,

RHC

-----Original Message-----

From: Richard Coen [mailto:rcoen@coencapital.com]

Sent: Thursday, August 12, 2004 5:41 PM

To: 'Lonnie Carter'

Cc: 'paul.campbell@alcoa.com'; 'drsanders1@charter.net';

'dialdubose@nalleyproperties.com'; 'CXD@nmrs.com'; 'Bill McCall'; 'Elaine

Peterson'; 'John West'; 'Pam Gaskins'; 'R.M. Singletary'; 'Susie Gillians';

'Graham Edwards'; 'jcland@sc.rr.com'; 'pallen@sc.rr.com';

'guerry@screentight.com'; 'kmunson@wcsr.com'

Subject: RE: FW: Santee Cooper / Confidential

Graham,

I just got a call from Sec. of Commerce Bob Faith.

He said you called and expressed concern that he had not "followed the appropriate channels" concerning his conversations with me regarding the gypsum deal.

He said that he is not comfortable with the representations or disclosures that Santee Cooper made to the prospective bidders and that there was no formal bid process or RFP.

This leaves the board and Santee Cooper wide open to criticism and contingent liabilities.

Who is driving this deal and why has the board been left out of the particulars of this very important process.

Sec. Faith also stated that you had a conference call with the governor's

From: "Munson, Keith" <KMunson@wcsr.com>  
To: "Lonnie Carter" <LNCARTER@santeecooper.com>, <rcoen@coencapital.com>, <paul.campbell@alcoa.com>, <drsanders1@charter.net>, <kgore@firstseinsurance.com>, <dialdubose@nalleyproperties.com>, <CXD@nmrs.com>, "Bill McCall" <BMCCALL@santeecooper.com>, "Elaine Peterson" <EGPETERS@santeecooper.com>, "John West" <JSWEST@santeecooper.com>, "Pam Gaskins" <PMGASKIN@santeecooper.com>, "R.M. Singletary" <RMSINGLE@santeecooper.com>, "Susie Gillians" <SBGILLIA@santeecooper.com>, "Graham Edwards" <TGEDWARD@santeecooper.com>, <jcland@sc.rr.com>, <pallen@sc.rr.com>, <guerry@screentight.com>  
Date: 8/13/04 10:59AM  
Subject: Gypsum Plant Issues - Keith Munson Comments (Confidential)

Please see Confidentiality Notice before reading email.  
\*\*\*\*\*

Ladies and Gentlemen: I have review the recent barrage of emails on the Gypsum Plant issues and would like everyone to know my reaction to various points. This comments may seem overly direct in some instances in order to be brief, please don't take them as dogmatic - I remain as easy going as ever.

1. I agree with Richard, Dial and Guerry that even if this had been done perfectly, the board should have been involved. In the past, the Santee Cooper staff may have been socialized not to bother the board members and I don't believe there is intentional avoidance, but I think we have made it abundantly clear that we want to be involved in these matters and offer our insights and assistance. The staff should modify their SOPs and pester us with details until we say to not so much. That is, if there is any doubt, staff should involve the board. It might make sense to create a secure area of the website to keep things posted and allow the board members to review and comment at will. We set up extranets with clients all the time and could do this for the board, if that makes sense.
2. I strongly disagree with the State, DOC or any local government giving anyone incentive tax dollars to build this plant. That would be taking money from tax payers of South Carolina and giving it rate payers of Santee Cooper. If they can't make it work at our price without incentives, we need to lower the price. It is crazy for the State the help a State Agency prop up its product price when the benefit does not go to the taxpayers. SC has a lot of economic development to do and only limited incentives - we don't need to be spending them here - let our price be the state and local incentive!
3. I have very little sympathy for US Gypsum Company. I don't believe that a \$3 billion dollar Fortune 500 company could get "gamed" by Bill McCall (Sorry Bill, your good, but not that good). If this was not the exact process that US Gypsum wanted to engage, they would have said something. I think they had a price in mind that if they could get, they would be profitable no matter what the infrastructure costs were (within their expectation from what they already knew). If the infrastructure costs were lower, then it would be gravy for USG. In any event, I sense sour grapes from USG's standpoint.
4. Some history on USG. It went into Bankruptcy in 2001 in order to try and avoid mounting asbestos claim costs. It emerged from bankruptcy in part by shutting down 1 billion square feet of high-cost wallboard plants in NY, Ohio, Iowa. (the town in Ohio had such a history with this industry that it was actually named Gypsum, Ohio!) US Gypsum also set out to eliminate 500 salaried positions. If interest rates creep up (which they will) and the new house market slows, I am concerned that US Gypsum would not complete, or would close this plant. They have plenty of other plants that can make wallboard (including a state of the art plant in Cartersville, GA.)
5. One point in favor of USG, however, does deserve mention. It has a wholly owned subsidiary L & W Distribution in SC with 185 hourly and 75 salaried personnel. That may suggest some long term commitment to SC. I wonder what similar connections American Gypsum has and why this didn't seem significant to DOC.

\*\*\*\*\*  
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CC: "Scott English (E-mail)" <sdenglish@gov.sc.gov>, "Bob Faith (E-mail 2)" <bfaith@sccommerce.com>



From: "Bob Faith" <BFaith@greystar.com>  
 To: <kmunson@wcsr.com>, <LNCARTER@santeecooper.com>, <rcoen@coencapital.com>, <paul.campbell@alcoa.com>, <drsanders1@charter.net>, <kgore@firstseinsurance.com>, <dialdubose@nalleyproperties.com>, <CXD@nmrs.com>, <BMCCALL@santeecooper.com>, <EGPETERS@santeecooper.com>, <JSWEST@santeecooper.com>, <PMGASKIN@santeecooper.com>, <RMSINGLE@santeecooper.com>, <SBGILLIA@santeecooper.com>, <TGEDWARD@santeecooper.com>, <jcland@sc.rr.com>, <pallen@sc.rr.com>, <guerry@screentight.com>  
 Date: 8/13/04 11:20AM  
 Subject: Re: Gypsum Plant Issues - Keith Munson Comments (Confidential)

Gents

My only comments are that my guys tell me that DOC felt kept out of the loop on which company was going to be picked. I think we did err in having incentive discussions with the company but my guys felt a bit misled that building a plant to use the gypsum was a foregone conclusion and that shipping the gypsum out of state was a viable alternative. We now believe that is not true. We are now informing the companies that they should not expect any state incentives. While it is not our call, the counties should consider whether it is appropriate for them to do a fee in lieu property tax reduction for this plant.

One other item to note is we should also take into consideration the size and number of employees each company is proposing to build be taken into consideration. I am under the impression USG was proposing to build a fifty percent larger investment and level of employment.

I have no opinion on the bid process. I just received (as did the Governor's office) the complaint from USG. Certainly could be sour grapes but it does suggest the selection process should include more than price but include all economic impacts.

Bob Faith

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Munson, Keith <KMunson@wcsr.com>  
 To: Lonnie Carter <LNCARTER@santeecooper.com>; rcoen@coencapital.com <rcoen@coencapital.com>; paul.campbell@alcoa.com <paul.campbell@alcoa.com>; drsanders1@charter.net <drsanders1@charter.net>; kgore@firstseinsurance.com <kgore@firstseinsurance.com>; dialdubose@nalleyproperties.com <dialdubose@nalleyproperties.com>; CXD@nmrs.com <CXD@nmrs.com>; Bill McCall <BMCCALL@santeecooper.com>; Elaine Peterson <EGPETERS@santeecooper.com>; John West <JSWEST@santeecooper.com>; Pam Gaskins <PMGASKIN@santeecooper.com>; R.M. Singletary <RMSINGLE@santeecooper.com>; Susie Gillians <SBGILLIA@santeecooper.com>; Graham Edwards <TGEDWARD@santeecooper.com>; jcland@sc.rr.com <jcland@sc.rr.com>; pallen@sc.rr.com <pallen@sc.rr.com>; guerry@screentight.com <guerry@screentight.com>  
 CC: Scott English (E-mail) <sdenglish@gov.sc.gov>; Bob Faith (E-mail 2) <bfaith@sccommerce.com>  
 Sent: Fri Aug 13 09:58:39 2004  
 Subject: Gypsum Plant Issues - Keith Munson Comments (Confidential)

Please see Confidentiality Notice before reading email.

Ladies and Gentlemen: I have review the recent barrage of emails on the Gypsum Plant issues and would like everyone to know my reaction to various points. This comments may seem overly direct in

some instances in order to be brief, please don't take them as dogmatic - I remain as easy going as ever.

1. I agree with Richard, Dial and Guerry that even if this had been done perfectly, the board should have been involved. In the past, the Santee Cooper staff may have been socialized not to bother the board members and I don't believe there is intentional avoidance, but I think we have made it abundantly clear that we want to be involved in these matters and offer our insights and assistance. The staff should modify their SOPs and pester us with details until we say to not so much. That is, if there is any doubt, staff should involve the board. It might make sense to create a secure area of the website to keep things posted and allow the board members to review and comment at will. We set up extranets with clients all the time and could do this for the board, if that makes sense.
2. I strongly disagree with the State, DOC or any local government giving anyone incentive tax dollars to build this plant. That would be taking money from tax payers of South Carolina and giving it rate payers of Santee Cooper. If they can't make it work at our price without incentives, we need to lower the price. It is crazy for the State the help a State Agency prop up its product price when the benefit does not go to the taxpayers. SC has a lot of economic development to do and only limited incentives - we don't need to be spending them here - let our price be the state and local incentive!
3. I have very little sympathy for US Gypsum Company. I don't believe that a \$3 billion dollar Fortune 500 company could get "gamed" by Bill McCall (Sorry Bill, your good, but not that good). If this was not the exact process that US Gypsum wanted to engage, they would have said something. I think they had a price in mind that if they could get, they would be profitable no matter what the infrastructure costs were (within their expectation from what they already knew). If the infrastructure costs were lower, then it would be gravy for USG. In any event, I sense sour grapes from USG's standpoint.
4. Some history on USG. It went into Bankruptcy in 2001 in order to try and avoid mounting asbestos claim costs. It emerged from bankruptcy in part by shutting down 1 billion square feet of high-cost wallboard plants in NY, Ohio, Iowa. (the town in Ohio had such a history with this industry that it was actually named Gypsum, Ohio!) US Gypsum also set out to eliminate 500 salaried positions. If interest rates creep up (which they will) and the new house market slows, I am concerned that US Gypsum would not complete, or would close this plant. They have plenty of other plants that can make wallboard (including a state of the art plant in Cartersville, GA.)
5. One point in favor of USG, however, does deserve mention. It has a wholly owned subsidiary L & W Distribution in SC with 185 hourly and 75 salaried personnel. That may suggest some long term commitment to SC. I wonder what similar connections American Gypsum has and why this didn't seem significant to DOC.

\*\*\*\*\*  
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CC: <sdenglish@gov.sc.gov>, <bfaith@scommerce.com>

From: "Clarence Davis" <clarence.davis@nelsonmullins.com>  
To: "BFaith@greystar.com" <BFaith@greystar.com>, "kmunson@wcsr.com"  
<kmunson@wcsr.com>, "LNCARTER@santeecooper.com" <LNCARTER@santeecooper.com>,  
<paul.campbell@alcoa.com>, "rcoen@coencapital.com" <rcoen@coencapital.com>,  
<paul.campbell@alcoa.com>, "kgore@firstseinsurance.com" <kgore@firstseinsurance.com>,  
<dialdubose@nalleyproperties.com" <dialdubose@nalleyproperties.com">  
<BMCCALL@santeecooper.com" <BMCCALL@santeecooper.com">  
<EGPETERS@santeecooper.com" <EGPETERS@santeecooper.com">  
<PMGASKIN@santeecooper.com" <PMGASKIN@santeecooper.com">  
<RMSINGLE@santeecooper.com" <RMSINGLE@santeecooper.com">  
<SBGILLIA@santeecooper.com" <SBGILLIA@santeecooper.com">  
<TGEDWARD@santeecooper.com" <TGEDWARD@santeecooper.com">  
<pallen@sc.rr.com" <pallen@sc.rr.com">  
Date: 8/13/04 8:28PM  
Subject: Re: Gypsum Plant Issues - Keith Munson Comments (Confidential)

Thanks, Bob.

In fulfillment of our fiduciary duties as a board, it is my opinion that no letter of understanding or intent of any kind whatsoever should be signed without our prior approval. In the interim, we, as a board, need to understand completely what has occurred, in detail, to insure that the process in which we engaged is acceptable to us. This is particularly necessary since there were no formal procedures in place, to my understanding, in considering which company should be selected.

It is incredulous to me that we can spend time on being informed in detail, to include seeing resumes, of a prospective Communications Director. Yet, on a matter of this potential magnitude, we know absolutely nothing about the details of the transaction or the rules of the game of such a transaction, as this seems to be novel to management.

It is my opinion and more bluntly stated, it is my position, period, that NO letter of intent or understanding can be signed, until full disclosure occurs informing the board as to the details of the process, all of it, in order for us to fulfill our fiduciary duties and responsibilities. Then, we vote on it, but only once our questions are answered.

Frankly, I will personally be highly perturbed if anything occurs otherwise. And, I will do whatever is within our authority to insure this never occurs again.

I apologize for any delay in you hearing from me, but I was preparing for a presentation before a national audience, which included present and prospective clients, as well as other regional and national law firms. I am sure there will be other e-mails from me and now, phone calls over the weekend. If anyone is upset because of this being over e-mail -- too bad. We should have been more informed from the outset.  
Clarence Davis

-----Original Message-----

From: Bob Faith <BFaith@greystar.com>  
To: kmunson@wcsr.com <kmunson@wcsr.com>; LNCARTER@santeecooper.com  
<LNCARTER@santeecooper.com>; rcoen@coencapital.com <rcoen@coencapital.com>;  
paul.campbell@alcoa.com <paul.campbell@alcoa.com>; drsanders1@charter.net

<drsanders1@charter.net>; kgore@firstseinsurance.com  
 <kgore@firstseinsurance.com>; dialdubose@nalleyproperties.com  
 <dialdubose@nalleyproperties.com>; Clarence Davis  
 <clarence.davis@nelsonmullins.com>; BMCCALL@santeecooper.com  
 <BMCCALL@santeecooper.com>; EGPETERS@santeecooper.com  
 <EGPETERS@santeecooper.com>; JSWEST@santeecooper.com  
 <JSWEST@santeecooper.com>; PMGASKIN@santeecooper.com  
 <PMGASKIN@santeecooper.com>; RMSINGLE@santeecooper.com  
 <RMSINGLE@santeecooper.com>; SBGILLIA@santeecooper.com  
 <SBGILLIA@santeecooper.com>; TGEDWARD@santeecooper.com  
 <TGEDWARD@santeecooper.com>; jcland@sc.rr.com <jcland@sc.rr.com>;  
 pallen@sc.rr.com <pallen@sc.rr.com>; guerry@screentight.com  
 <guerry@screentight.com>  
 CC: sdenglish@gov.sc.gov <sdenglish@gov.sc.gov>; bfaith@scommerce.com  
 <bfaith@scommerce.com>  
 Sent: Fri Aug 13 11:18:05 2004  
 Subject: Re: Gypsum Plant Issues - Keith Munson Comments (Confidential)

Gents

My only comments are that my guys tell me that DOC felt kept out of the loop on which company was going to be picked. I think we did err in having incentive discussions with the company but my guys felt a bit misled that building a plant to use the gypsum was a foregone conclusion and that shipping the gypsum out of state was a viable alternative. We now believe that is not true

We are now informing the companies that they should not expect any state incentives. While it is not our call, the counties should consider whether it is appropriate for them to do a fee in lieu property tax reduction for this plant

One other item to note is we should also take into consideration the size and number of employees each company is proposing to build be taken into consideration. I am under the impression USG was proposing to build a fifty percent larger investment and level of employment

I have no opinion on the bid process. I just received (as did the Governor's office) the complaint from USG. Certainly could be sour grapes but it does suggest the selection process should include more than price but include all economic impacts

Bob Faith

Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Munson, Keith <KMunson@wcsr.com>  
 To: Lonnie Carter <LNCARTER@santeecooper.com>; rcoen@coencapital.com  
 <rcoen@coencapital.com>; paul.campbell@alcoa.com <paul.campbell@alcoa.com>;  
 drsanders1@charter.net <drsanders1@charter.net>; kgore@firstseinsurance.com  
 <kgore@firstseinsurance.com>; dialdubose@nalleyproperties.com  
 <dialdubose@nalleyproperties.com>; CXD@nmrs.com <CXD@nmrs.com>; Bill McCall  
 <BMCCALL@santeecooper.com>; Elaine Peterson <EGPETERS@santeecooper.com>;  
 John West <JSWEST@santeecooper.com>; Pam Gaskins  
 <PMGASKIN@santeecooper.com>; R.M. Singletary <RMSINGLE@santeecooper.com>;



Susie Gillians <SBGILLIA@santeecooper.com>; Graham Edwards  
<TGEDWARD@santeecooper.com>; jcland@sc.rr.com <jcland@sc.rr.com>;  
pallen@sc.rr.com <pallen@sc.rr.com>; guerry@screeentight.com  
<guerry@screeentight.com>  
CC: Scott English (E-mail) <sdenglish@gov.sc.gov>; Bob Faith (E-mail 2)  
<bfaith@sccommerce.com>  
Sent: Fri Aug 13 09:58:39 2004  
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2. I strongly disagree with the State, DOC or any local government giving anyone incentive tax dollars to build this plant. That would be taking money from tax payers of South Carolina and giving it rate payers of Santee Cooper. If they can't make it work at our price without incentives, we need to lower the price. It is crazy for the State the help a State Agency prop up its product price when the benefit does not go to the taxpayers. SC has a lot of economic development to do and only limited incentives - we don't need to be spending them here - let our price be the state and local incentive!

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=====

CC: "sdenglish@gov.sc.gov" <sdenglish@gov.sc.gov>, "bfaith@scommerce.com" <bfaith@scommerce.com>

**From:** <TGrahamEdwards@aol.com>  
**To:** <rcoen@coencapital.com>, <LNCARTER@santeecooper.com>  
**Date:** 8/14/04 10:41AM  
**Subject:** Re: FW: Santee Cooper / Confidential

Members of the Board:

It appears the potential gyp plant has attracted a great deal of interest over the past week. So you will know, I had the same briefings on this issue from April to July as the rest of the Board. I was not involved in any way with this project.

I was called last Friday (August 6) by Scott English of the Governor's Office concerning this project, as was reported to you in Lonnie's e-mail earlier this week. Scott indicated he had received a call from a company complaining about Santee Cooper's actions in their potential location of a plant. Not being involved, I immediately handed the phone to Bill and Lonnie who were with me at the time.

Earlier this week, I received another call from Scott's assistant requesting further discussion. Management arranged for a conference call and I was asked to participate. This occurred Thursday afternoon (August 12). Lonnie and Bill explained the situation to the group from Commerce and Scott and all seemed to be satisfied. Lonnie reported this information to you by e-mail.

Immediately after the phone call and discussion, I asked Bill and Lonnie not to proceed any further with any letter of intent until the Board had an opportunity to hear full details on this issue at the August 23rd meeting.

I look forward to further discussing this issue at our next meeting. If you have any questions or would like to discuss prior to the meeting, please feel free to call me.

To those in the area, good luck with the storm!

Regards,  
Graham

**CC:** <paul.campbell@alcoa.com>, <drsanders1@charter.net>, <dialdubose@nalleyproperties.com>, <CXD@nmrs.com>, <BMCCALL@santeecooper.com>, <EGPETERS@santeecooper.com>, <JSWEST@santeecooper.com>, <PMGASKIN@santeecooper.com>, <RMSINGLE@santeecooper.com>, <SBGILLIA@santeecooper.com>, <jcland@sc.rr.com>, <pallen@sc.rr.com>, <guerry@screentight.com>, <kmunson@wcsr.com>

clarence.davis@nelsonmullins.com>

capital.com" <rcoen@coencapital.com>,

com" <LNCARTER@santeecooper.com>

5:54AM

Santee Cooper / Confidential

If information is available, we need to see a detailed breakdown of the competing economic impact variables, which among others, capital investment, wages, number of employees, types of employees, anticipated power consumption, projected tax revenue, infrastructure needs, etc. It is likely that we need a 3d party to assist in creating a framework for a negotiated process, if a true bid process is not feasible, which is doubtful to me because of all the variables that need to be considered as alluded to above. A third party could provide us an analysis of these factors and a recommendation for board consideration, working in conjunction with DOC or even the Budget & Control Board economists, too, though, if they so desire to assist us. To negotiate just on price is likely too simple a process, based on all other variables to be considered. We have our State resources, but someone like Hartley Powell as a resource could greatly assist us. I have worked firsthand with Hartley before in rebuilding JEDA years ago and he does know what he is doing. Negotiating power is one thing, but to negotiate the entry of an entire industry into the State is another "ball game". No offense, but I have serious questions about our ability or expertise to do this or make this decision alone. We need to maximize our bargaining power, not just for Santee Cooper, but for the State as a whole, particularly those within our service areas. Since we have the bargaining power, we need to use it and need the help of specialists to insure we do this properly and as fairly as possible. There will be a winner and there will be a loser, but we want all to say they were treated fairly and if asked by the press or whomever, we need to be able to point out specifics, not vagaries in demonstrating to the public that it was so.

Clarence Davis

-----Original Message-----

From: Richard Coen <rcoen@coencapital.com>

To: 'Lonnie Carter' <LNCARTER@santeecooper.com>

CC: paul.campbell@alcoa.com <paul.campbell@alcoa.com>;

drsanders1@charter.net <drsanders1@charter.net>;

dialdubose@nalleyproperties.com <dialdubose@nalleyproperties.com>; Clarence

Davis <clarence.davis@nelsonmullins.com>; 'Bill McCall'

<BMCCALL@santeecooper.com>; 'Elaine Peterson' <EGPETERS@santeecooper.com>;

'John West' <JSWEST@santeecooper.com>; 'Pam Gaskins'

<PMGASKIN@santeecooper.com>; 'R.M. Singletary' <RMSINGLE@santeecooper.com>;

'Susie Gillians' <SBGILLIA@santeecooper.com>; 'Graham Edwards'

<TGEDWARD@santeecooper.com>; jcland@sc.rr.com <jcland@sc.rr.com>;

pallen@sc.rr.com <pallen@sc.rr.com>; guerry@screentight.com

<guerry@screentight.com>; kmunson@wcsr.com <kmunson@wcsr.com>

Sent: Sun Aug 15 10:11:25 2004

Subject: RE: FW: Santee Cooper / Confidential

Lonnie,

I understand that you want to present the gypsum transaction to the full board and that is what should happen.

However, the director's that requested the information on the bids still

want that information and a response from management to review prior to the meeting.

Please include a copy of the property sales information, appraisals and advertising.

Many questions were asked?

Please have management respond to the questions with specific answers as a part of this transmittal.

We must have this no later than Tuesday.

I have requested that the board of directors be given the opportunity to hear from a real estate advisory firm and an economic development advisor. I want the board to consider engaging the services of experts that provide these services to review the Santee Cooper property portfolio, economic development initiatives (especially with the status of the great progress we are making with Central) and our bid and procurement process. Internal reports and the inability of the board to fully understand the opportunities

have caused the communications breakdown that we are suffering from. At this point, I do not believe it is anyone's fault.

You are getting the emails because you are the President and CEO. Having fun yet?

Management needs to concentrate on public power. These are board issues and we need a competent third party review for all of our benefit.

I would like to request that we amend the agenda to allow for presentations from Broad Street Advisors and Hartley Powell after the board discussion on the status of the property and gypsum sale. They will need approximately 30 minutes each unless there are a lot of questions.

Please invite Sec. Faith and/or his staff to attend the appropriate portions of the meeting. No one has a preference for a gypsum buyer. We all want the best deal for Santee Cooper and the state with no incentives that would only drive down the value of the gypsum at taxpayer expense.

These are the most pressing items I am aware of for our board's consideration so please make them a top priority. If we decide to engage any consultants, we can then decide what bid process is appropriate. Also, if any other board members or management have a recommendation, let's consider their suggestions and get going.

I know the board is appreciative of all you and the employees have done to try and restore power in the service areas that had outages.

Thank you,

RHC

-----Original Message-----

From: Richard Coen [mailto:rcoen@coencapital.com]

Sent: Thursday, August 12, 2004 5:50 PM

To: 'Lonnie Carter'

Cc: 'paul.campbell@alcoa.com'; 'drsanders1@charter.net';



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## INTER-OFFICE COMMUNICATION

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Date: September 2, 2004

To: Board of Directors

From: *MC* Lonnie N. Carter, President and Chief Executive Officer

Subject: Economic Development Matters

This will confirm our understandings from the August 23, 2004 meeting regarding how management is to proceed with the gypsum economic development effort. We understand the following:

1. Management is authorized to sign a letter of intent with Company A.
2. Once Company A has committed to come to a specific plant location, management will bring back to the Board for input and review a proposed lease agreement for the property involved, and any other proposed contract documents.
3. Management will negotiate a net margin of not less than the current margin of 75¢.
4. Management will investigate the use of rail vs. trucks for both sites.

Upon recommendation by management, the Board will establish a policy pursuant to which the Board will be informed on economic development projects as negotiations progress.

LNC:mtw



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INTER-OFFICE COMMUNICATION

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DATE: August 16, 2004  
TO: Board of Directors  
FROM: Mr. Lonnie N. Carter, President and Chief Executive Officer *LNC*  
SUBJECT: Economic Development Prospect Information

**\*\* C O N F I D E N T I A L \*\***

As requested by members of the Board, enclosed are a summary of Santee Cooper's discussion with potential wallboard plant prospects and a complete copy of what we have in our files.

I offer the following in an effort to clarify where management is in its discussion with these prospects. No letter of intent has been executed by either party. We have verbally told one prospect their price is acceptable and agreed to work on a letter of intent or term sheet. The prospect sent a proposed term sheet. Santee Cooper made revisions and is waiting to hear from them on our revisions. We are not pressing for them. A copy of both term sheets is in the package.

We did tell the other prospect that their last best price was not acceptable and we are pursuing a letter of intent with another party. We made clear to them that if the other party fails to follow through we would like to come back and continue our negotiations. For these reasons we need to try and keep a good relationship with them.

Even with the letter of intent (if we are authorized to proceed by the Board) there are a number of other issues that must be worked out, many by others, before the prospect becomes reality. The successful location of one of these prospects requires coordination among the Department of Commerce (DOC), the counties, cooperatives and possibly others.

Management remains focused on trying to work with DOC to locate one of these prospects. We will make a full report to the Board in as much detail as desired at the upcoming Board meeting. We look forward to receiving your guidance.

LNC:pmg

Enclosure

Copy: Bill McCall, Jr.  
John S. West  
Elaine G. Peterson  
R. M. Singletary, III





---

INTER-OFFICE COMMUNICATION

---

DATE: August 16, 2004

TO: Mr. Lonnie N. Carter, President and Chief Executive Officer

FROM: *R.M. Singletary*  
Mr. R. M. Singletary, Senior Vice President, Corporate Services

SUBJECT: Wallboard Facility

Enclosed are all of the records pertaining to Santee Cooper's recent negotiations for gypsum sales with two wallboard manufacturers. This package includes any information from our internal team and correspondence from the wallboard manufacturers, as well as any state or county agency information which we received.

There is a six page document that gives background information and a chronological account of Santee Cooper's actions concerning this project. The other documents attached are in chronological order and include any correspondence, presentations, or documented phone conversations relevant to this project.

These negotiations are ongoing and all information must be kept confidential.

RMS:pmg

Enclosure

## Gypsum History

Gypsum = Calcium Sulfate =  $\text{CaSO}_4$ . Created when a chemical reaction occurs within the scrubber modules where gaseous sulfur dioxide,  $\text{SO}_2$ , is drawn across the liquid-gas interface and reacts with hydrated calcium carbonate (limestone slurry) to form  $\text{CaSO}_4$ . This material is used in cement manufacture as a set retarder, has agricultural uses as soil conditioner (commonly referred to as "land plaster"), and is also used in the manufacture of wallboard.

Santee Cooper first began producing synthetic gypsum in 1999, when Cross Unit 2's scrubber modules were converted from natural oxidation, where now >90% of calcium sulfite is converted to calcium sulfate. Since the conversion of Cross Unit 2 to forced oxidation, Santee Cooper, through the Environmental Management Department, has sold 100,000 to 125,000 tons/year (total sales) of gypsum to all 3 cement manufacturers in the Harleyville area (Holcim, Giant, and LaFarge). This gypsum sells for \$5.63 / ton wet at 18% moisture, or \$6.64 / ton dry basis and the price is adjusted annually based on economic indices. Also, agricultural interests have purchased over 25,000 tons in 2004 for the same price as cement.

During the time Santee Cooper has manufactured gypsum, wallboard manufacturers have contacted Santee Cooper's Combustion Products Administrator inquiring about the gypsum status. The wallboard market in the US has recently consolidated itself into the following major companies in order of market share (2002 data):

- US Gypsum (29%)
- National Gypsum (22%)
- Georgia Pacific (14%)
- BPB Celotex (12%)
- Eagle Materials (American Gypsum) (8%)
- LaFarge (7%)
- Temple Inland (5%)
- Pabco (3%)

Over the past 5 years, Santee Cooper has typically heard off and on from US Gypsum, National, Celotex and LaFarge. These companies contacted Santee Cooper, for the most part, because they operated the closest manufacturing facilities to Santee Cooper's Cross and Winyah Stations and were generally looking for backup supplies for their existing Plants. It was Santee Cooper's experience that until recently, these companies wanted Santee Cooper to pay them to take the gypsum, or at a minimum, remove the gypsum from the Santee Cooper property free of charge. From our viewpoint, this did not look to serve Santee Cooper based on the price cement was paying and the possibility of selling the material to agriculture for the same price. Santee Cooper had also received interest from an entrepreneur, Sante Fe Resources, who wanted to build a small plant (200-300k tons per year) at Cross or Winyah Station (most plants are 500k tons per year or larger). In early 2003, Santee Cooper was making plans to convert Winyah Units 3 and 4 to

forced oxidation for operational reasons and would produce 200,000 tons per year of gypsum. In attempt to leverage these informal discussions and find a market for the Winyah gypsum, in April, 2003, Santee Cooper sent a request for bids to Lafarge, USG, BPB Celotex, Sante Fe Resources, and National for 200,000 tons per year at Winyah Station. All bids were unacceptable, and only Sante Fe had expressed interest in constructing a wallboard plant, and Sante Fe did not appear to be financially viable. The other wallboard companies that submitted bids planned on hauling the gypsum out of state. Santee Cooper rejected all bids.

Also, Santee Cooper's Economic Development Department held conversations with US Gypsum at various times from November 2002 through December 2003 regarding building a natural gypsum wallboard plant (importing rock from outside the US) (correspondence attached).

Things changed in February 2004 when Santee Cooper announced the permitting of Cross Units 3 and 4. Since that time, the Administrator of Combustion Products has been contacted by all wallboard manufacturers with the exception of Pabco.

The current project began in March 2004 when an unknown wallboard manufacturer wanted to make a presentation to Santee Cooper regarding purchasing gypsum for a potential plant. This meeting was set up by Santee Cooper's Economic Development Department at the request of a consultant, Robert Katz. In advance of the meeting, SC Commerce exchanged emails with Santee Cooper, Robert Katz and copied Berkeley County and the Regional Alliance (emails attached).

The meeting occurred in Greenville SC since Economic Development personnel were already there on business. Officials from Berkeley County, the Tri-County Alliance, SC Pipeline and Santee Cooper were in attendance..

At the meeting, we learned that the manufacturer in question was American Gypsum, a subsidiary of Eagle Materials (formerly Centex Materials). David House, President and CEO of American Gypsum along with William Boor, Senior VP at Eagle Materials presented their company plans to build a facility somewhere in the SE US. The plant would have a capacity of 500,000 - 600,000 tons per year of gypsum. This company typically does not operate in the Eastern US, but was looking to expand market share. It was the assumption of American/Eagle at that time that the Cross Plant could supply the 600,000 tons /yr required and that the Cross Plant would be a good location for a new manufacturing facility (close to I-95). Santee Cooper informed them that since we had committed Cross Units 1 and 2 gypsum to cement through 2011, we would not be able to supply that quantity from Cross, but it would have to be supplemented with gypsum from Winyah Station. We pointed out to American / Eagle the relative location of both facilities (Cross and Winyah Stations) but focused on Berkeley County. Santee Cooper supplied American / Eagle with a overhead photo of a potential site at the Wilson Dam (which American rejected as too far from Cross Station) and a map showing the relationship in miles between Cross and Winyah. It was apparent at the meeting that American / Eagle had done quite a bit of market research showing a wallboard deficit in

future years. We left this meeting with several assignments including: water supply data for Cross and a gypsum pricing proposal and location of sites within 2-3 miles of each facility.

Within weeks of this meeting, Economic Development and Environmental Management had identified 1 site at each Winyah and Cross that fit American / Eagle's criteria. The same Berkeley County site was also identified by Berkeley County Economic Development. Both sites are on Santee Cooper property.

The following sequence of events has occurred since the March 31, 2004 meeting with American / Eagle:

Late April - At the request of Santee Cooper's Economic Development, Environmental Services conducts a preliminary wetlands assessment of both the potential sites (wetlands maps attached given to both companies at later meetings in July 2004).

April 30, 2004 - Dan Salisbury contacted Santee Cooper Economic Development and based on that conversation faxed a standard site requirement document (attached).

May 10, 2004 - Robert Katz and an associate met with Bill McCall, Maxie Chaplin, Jay Hudson, Tommy Edens and Santee Cooper Economic Development regarding the American / Eagle proposal. Both the Winyah and Berkeley County sites were offered as potential sites. Santee Cooper specified that we did not prefer one or the other. Also, Santee Cooper presented a gypsum price proposal to Katz at this time. The pricing was based on Santee Cooper being responsible for transporting the requested quantity of gypsum to the plant location from either Cross or Winyah. Pricing varied based on moisture content and the price sheet given to Katz is attached. Katz also requested water quality / hydraulic conductivity data from the Cross Site. A quantity of gypsum available by year spreadsheet was also given to Katz at that time (attached). This sheet included the gypsum production through 2008 which indicated gypsum available stockpiled and produced in future years. Once build-out of all scrubbers is complete, the following quantities would be available for a wallboard facility:

Winyah 1-4 - 400,000 tons/yr  
Cross 3 - 150,000 tons/yr  
Cross 4 - 150,000 tons/yr

Katz was also supplied with overhead photos of one potential site at both Cross and Winyah.

May 18, 2004 - Environmental Management provided Robert Katz with well pump test data and analyses from the Concrete Cross Batch Plant (near the proposed Cross Site). Data attached.

May 19, 2004 - US Gypsum requested a meeting with Santee Cooper. This was scheduled for June 3, 2004.

May 27, 2004 - American / Eagle provided Santee Cooper with a draft LOI to locate a wallboard plant near either WGS or CGS and secure stated volumes of synthetic gypsum raw material from SC (attached). The offered price was \$4.50 / ton at 8% moisture and included constructing a 500,000 - 600,000 ton/yr gypsum wallboard plant. This document was forwarded to Santee Cooper Legal for review.

June 3, 2004 - Representatives of US Gypsum (Dom Danessa, Cheryl Strempeka, John Gaynor and Dan Salisbury meet with Santee Cooper management and propose to build a wallboard facility at Winyah Station (their presentation is attached). US Gypsum offered \$4/ton at 10% moisture. US Gypsum also requested that Santee Cooper sign a letter of exclusivity to deal only with US Gypsum for a period of 180 days. US Gypsum also was interested in using steam in part of their process. We left this meeting to research the steam issue and gypsum pricing. The same quantity data presented to Robert Katz on May 10, 2004 was also give to USG at this time as well as overhead photos of both Cross and Winyah and a map of lower South Carolina showing the relationship between Cross and Winyah (supplied to American / Eagle on March 31, 2004).

June 11, 2004 - John Gaynor of US Gypsum forwarded to Santee Cooper a letter of exclusivity (attached). This was forwarded to Santee Cooper legal for review. Per later conversations with Legal, it was not possible to sign this document as long as we were negotiating with others (which was mentioned to all parties).

July 1, 2004 - Meeting held at Winyah Station with Bruce Petersen and John Gaynor of US Gypsum, Leif Svensen, Bill Toombs, George Haygood, Mike Brown, Sam Harrelson Tommy Edens, Bill McCall, Al Saunders & Don Watts of Santee Cooper (agenda attached). The purpose was to discuss location, steam, and gypsum price. We presented John Gaynor with the same gypsum pricing sheet that was presented to Katz (American / Eagle) on May 10, 2004). John indicated that he was disappointed with the pricing. Mr. McCall asked what USG could offer above the \$4.00 proposal. John responded "maybe \$5.00." A tour of plant and site was conducted. Gaynor is also informed we will not sign the letter of exclusivity until a suitable gypsum price is reached.

July 8, 2004 - Email from Jay Hudson to John Gaynor of US Gypsum indicating that we were working hard on the steam supply issue, but may need more time. In a same day reply, Gaynor indicates "We need to focus on these issues [gypsum price and commercial terms] and leave the steam and energy issue for a later date." A meeting is also scheduled at Moncks Corner on July 12 with a trip to the Winyah Site on July 13. Email attached.

July 12, 2004 - Conducted an AM conference call with David House, CEO American Gypsum, William Boor, Sr. VP, Eagle materials, Robert Katz and Santee Cooper management regarding Gypsum Pricing, as we had not heard back from Katz. Santee Cooper indicated that we needed \$6.50/ton at 10% moisture for the material (this is based on the price of gypsum to cement plus the cost of washing and drying). At that time, American / Eagle agreed to that price. A face to face meeting with American / Eagle was



scheduled for July 22, 2004. At that time, we worked up a comparable price for US Gypsum based on cement. Since US Gypsum required more material (700,000 tons /yr) Santee Cooper would be required to transport 100,000 - 200,000 more tons per year from either station. Thus, the equivalent price for US Gypsum was \$6.75/ton.

2 pm - Santee Cooper met with Dan Salisbury and John Gaynor of US Gypsum. US Gypsum informed Santee Cooper that they would not negotiate price until Santee signed a letter of exclusivity. We were not willing to do that, and we indicated to USG we were talking with other gypsum users. We instructed US Gypsum that we need \$6.75/ton for the gypsum to be on par with cement prices. USG's reaction was negative. US Gypsum then offered \$6.75/ton at Cross and \$3.75/ton at Winyah, with the facility to be at Winyah. This equates to \$4.93/ton when transportation is factored in. Salisbury demanded to speak with upper management to discuss USG's offer. A conference call was arranged for the next morning with Bill McCall and Jay Hudson.

July 13, 2004 - a conference call between Jay Hudson, Bill McCall and Dan Salisbury and John Gaynor. Mr. McCall indicated we were not excited about the \$5/ton price, as there were risks Santee must take on this project that involved additional costs and that we would like to have \$6.75 for that reason. At that time a meeting was arranged for July 23, 2004 with USG management for the final price discussion. We instructed USG that Santee Cooper management would consider the \$5/ton price. This July 23, 2004 meeting was later rescheduled to July 27, 2004.

July 14-18, 2004 - Dom Dannessa spoke with Bill McCall via phone several times.

July 22, 2004 - Met with Robert Katz, William Boor and Kerry Gannaway of American / Eagle and Santee Cooper management. Commerce and John Scarborough of Berkeley County Economic Development also attended the first portion of the meeting to discuss incentives. Commerce and Berkeley County left the meeting and American / Eagle reaffirmed their price of \$6.50/ton at 10% moisture. Santee Cooper made it clear to American / Eagle that we did not have a preference on either site. A site visit with Commerce and Berkeley County was then conducted. After completing that, a lunch meeting was held at Winyah Generating station with Al Burns of Georgetown County. A site tour was conducted.

Dan Salisbury contacted Jay Hudson late in the afternoon of July 22, 2004 restating their position of \$5/ton and their desire to sign an exclusive agreement. A record of the conversation is attached.

July 27, 2004 - Santee Cooper met with US Gypsum reps Dom Dannessa, John Gaynor and Dan Salisbury. Dom began by informing Santee Cooper that he had presented this project possibility to the USG board. Salisbury then mentioned we need to search for common value of the gypsum / project. USG's value is a consistent source of raw material and a reliable supplier. Salisbury mentioned their last price was \$5/ton and there were other benefits to Santee beyond the gypsum price (spin-off benefits, landfill avoidance, economic etc.). Santee Cooper's response to Salisbury was that Santee did



not intend to hold them up, and if we believed Santee would not execute a project with USG, we would tell them as soon as possible so that USG could proceed in a timely manner. Santee Cooper also mentioned that we were accelerating gypsum producing projects in order to meet their schedule and this involved additional cost on Santee Cooper's part. Santee Cooper again reiterated the requirement of a price of \$6.75/ton. At that point Salisbury said USG and Santee Cooper could come to some agreement on price (the two companies were \$1.75 apart) At this point, Santee Cooper personnel left the room telling USG to come up with their best price. Approximately 20-30 mins later, the meeting reconvened. And Salisbury mentioned that price that they had derived "stretched their financials to the limit" and that Dom's abilities to get this approved would be "tested" at this price. Salisbury then wanted a commitment that the price about to given would be recommended to Santee Cooper's Chairman and CEO. McCall's answer was that we will let USG know Santee Cooper's response on Friday, 7/30/04. Received a final price of \$5.90 /ton with a minimum supply of 770,000 tons/year wet gypsum and conditional on energy offsets.

July 29, 2004 - Santee Cooper's Administrator of Combustion Products receives a call inquiring about gypsum from a representative of Temple Inland, a wallboard manufacturer with no nearby plants (it is assumed that they want to construct a facility).

August 3, 2004 - revised LOI emailed to American / Eagle (attached along with email cover).

August 6, 2004 - received an unsolicited proposal from LaFarge to purchase gypsum at Cross Station for \$3.75/ton FOB plant.

August 11, 2004 -Phone conversation between American / Eagle's William Boor and Jay Hudson. Bill indicates that they have their lawyer working on revisions to the LOI and it will be back to Santee Cooper as quickly as possible, perhaps as early as 8/13/2004.

From: Lonnie Carter  
 To: Campbell, Paul G; [carl.falk@falk-griffinfoundation.org](mailto:carl.falk@falk-griffinfoundation.org); [CXD@nmrs.com](mailto:CXD@nmrs.com); [dialdubose@nalleyproperties.com](mailto:dialdubose@nalleyproperties.com); [drsanders1@charter.net](mailto:drsanders1@charter.net); [guerry@screentight.com](mailto:guerry@screentight.com); [jcland@sc.rr.com](mailto:jcland@sc.rr.com); [kmunson@wcsr.com](mailto:kmunson@wcsr.com); [pallen@sc.rr.com](mailto:pallen@sc.rr.com); [rcoen@coencapital.com](mailto:rcoen@coencapital.com)  
 Date: 3/14/05 5:32PM  
 Subject: RE: Economic Development Prospect \* Confidential \*

Paul,

I had not thought about the \$4 million budgeted for this mainly because we are working with the Coops to decide how best to direct our economic development efforts. We have not discussed this project with the Coops but would expect them to support it. Because we are planning to offer assistance using our employees and equipment on Santee Cooper property and the amount, I believe that we could possibly handle it from our current capital budget. We have about \$200,000 budgeted this year for economic development projects. However, if the Board wants to designate the money to come from the \$4 million, I am ok with it.

We will discuss this with the Board on Friday and look for your direction.

Thanks  
 Lonnie

>>> "Campbell, Paul G" <[Paul.Campbell@alcoa.com](mailto:Paul.Campbell@alcoa.com)> 03/11/05 08:41PM >>>

I assume this comes from the \$4.3 million we had set aside for Economic Dev so the money is there. This is what we intended for these dollars to cover. It will also show the General Assembly we are not just willy nilly giving money to the state and we are not dictating how the appropriations process works. Paul

-----Original Message-----

From: [guerry@screentight.com](mailto:guerry@screentight.com) [<mailto:guerry@screentight.com>]  
 Sent: Friday, March 11, 2005 7:20 PM  
 To: Lonnie Carter; [paul.campbell@alcoa.com](mailto:paul.campbell@alcoa.com); [drsanders1@charter.net](mailto:drsanders1@charter.net); [rcoen@coencapital.com](mailto:rcoen@coencapital.com); [carl.falk@falk-griffinfoundation.org](mailto:carl.falk@falk-griffinfoundation.org); [dialdubose@nalleyproperties.com](mailto:dialdubose@nalleyproperties.com); [CXD@nmrs.com](mailto:CXD@nmrs.com); [jcland@sc.rr.com](mailto:jcland@sc.rr.com); [pallen@sc.rr.com](mailto:pallen@sc.rr.com); [kmunson@wcsr.com](mailto:kmunson@wcsr.com)  
 Cc: [jtmol@attglobal.net](mailto:jtmol@attglobal.net); Bill McCall; Elaine Peterson; James Brogdon; Pam Gaskins; R.M. Singletary; Susie Gillians  
 Subject: Re: Economic Development Prospect \* Confidential \*

> Everyone, I am traveling but can be reached by cell phone.  
 Please call or email any concerns that you may have. Bob Faith has made it clear that the project is a high priority and that he welcomes any help that we can offer. Let me know what you think.  
 Guerry 843 240 0100

> From: "Lonnie Carter" <[LNCARTER@santeecooper.com](mailto:LNCARTER@santeecooper.com)>  
 > Date: 2005/03/11 Fri PM 04:20:40 CST  
 > To: <[paul.campbell@alcoa.com](mailto:paul.campbell@alcoa.com)>, <[drsanders1@charter.net](mailto:drsanders1@charter.net)>, <[rcoen@coencapital.com](mailto:rcoen@coencapital.com)>, <[carl.falk@falk-griffinfoundation.org](mailto:carl.falk@falk-griffinfoundation.org)>, <[dialdubose@nalleyproperties.com](mailto:dialdubose@nalleyproperties.com)>, <[CXD@nmrs.com](mailto:CXD@nmrs.com)>, <[jcland@sc.rr.com](mailto:jcland@sc.rr.com)>, <[pallen@sc.rr.com](mailto:pallen@sc.rr.com)>, <[guerry@screentight.com](mailto:guerry@screentight.com)>, <[kmunson@wcsr.com](mailto:kmunson@wcsr.com)>  
 > CC: <[jtmol@attglobal.net](mailto:jtmol@attglobal.net)>, "Bill McCall" <[BMCCALL@santeecooper.com](mailto:BMCCALL@santeecooper.com)>, "Elaine Peterson" <[EGPETERS@santeecooper.com](mailto:EGPETERS@santeecooper.com)>, "James Brogdon" <[Jebroqdo@santeecooper.com](mailto:Jebroqdo@santeecooper.com)>, "Pam Gaskins" <[PMGASKIN@santeecooper.com](mailto:PMGASKIN@santeecooper.com)>, "R.M. Singletary" <[RMSINGLE@santeecooper.com](mailto:RMSINGLE@santeecooper.com)>

> "Susie Gillians" <[SBGILLIA@santeecooper.com](mailto:SBGILLIA@santeecooper.com)>  
> Subject: Economic Development Prospect \* Confidential \*  
>  
>  
> Gentlemen:  
>  
> Guerry wanted me to forward the attached note he received from  
Bob  
> Faith, Secretary of Dept. of Commerce.  
>  
> After talking with Tim Dangerfield, Chief of Staff at DOC, they are  
> supporting Santee Cooper providing in kind or other incentives  
to  
> American Gypsum. This would be in lieu of the "Job  
Development Credits"  
> that DOC is unable to offer. This is consistent with Secretary  
Faith's  
> note. The Job Development Credits from DOC would have been  
about  
> \$600,000.  
>  
> After discussing again with Guerry, I have authorized Bill McCall  
to  
> offer in kind assist to American, not to exceed the \$600,000 in  
cost to  
> Santee Cooper to bring the deal to closure. The site requires the  
> relocation of the entrance road to Winyah Station, moving a  
> transmission line and some site fill. We are in the final stages of  
> negotiations and Bill may need this to get some concessions in  
our  
> agreement with American.  
>  
> We will make clear that whatever we offer is being done in lieu of  
the  
> State offering Job Development Credits.  
>  
> We will be giving the Board a full update on the project next  
week at  
> our meeting. In the meantime if you have any questions or  
concerns,  
> please let me know.  
>  
> Thanks  
> Lonnie  
>  
>  
> \_\_\_\_\_  
> Confidentiality Notice:  
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phone or reply to this e-mail, and delete all copies of this message.  
>

CC: Brogdon, James; Gaskins, Pam; Gillians, Susie; jtmol@attglobal.net; McCall, Bill; Peterson, Elaine; Singletary, R.M.

Susie Gillians <SBGILLIA@santeecooper.com>; Graham Edwards  
<TGEDWARD@santeecooper.com>; jcland@sc.rr.com <jcland@sc.rr.com>;  
pallen@sc.rr.com <pallen@sc.rr.com>; guerry@screentight.com  
<guerry@screentight.com>  
CC: Scott English (E-mail) <sdenglish@gov.sc.gov>; Bob Faith (E-mail 2)  
<bfaith@sccommerce.com>  
Sent: Fri Aug 13 09:58:39 2004  
Subject: Gypsum Plant Issues - Keith Munson Comments (Confidential)

Please see Confidentiality Notice before reading email.

.....

Ladies and Gentlemen: I have review the recent barrage of emails on the Gypsum Plant issues and would like everyone to know my reaction to various points. This comments may seem overly direct in some instances in order to be brief, please don't take them as dogmatic - I remain as easy going as ever.

1. I agree with Richard, Dial and Guerry that even if this had been done perfectly, the board should have been involved. In the past, the Santee Cooper staff may have been socialized not to bother the board members and I don't believe there is intentional avoidance, but I think we have made it abundantly clear that we want to be involved in these matters and offer our insights and assistance. The staff should modify their SOPs and pester us with details until we say to not so much. That is, if there is any doubt, staff should involve the board. It might make sense to create a secure area of the website to keep things posted and allow the board members to review and comment at will. We set up extranets with clients all the time and could do this for the board, if that makes sense.
2. I strongly disagree with the State, DOC or any local government giving anyone incentive tax dollars to build this plant. That would be taking money from tax payers of South Carolina and giving it rate payers of Santee Cooper. If they can't make it work at our price without incentives, we need to lower the price. It is crazy for the State the help a State Agency prop up its product price when the benefit does not go to the taxpayers. SC has a lot of economic development to do and only limited incentives - we don't need to be spending them here - let our price be the state and local incentive!
3. I have very little sympathy for US Gypsum Company. I don't believe that a \$3 billion dollar Fortune 500 company could get "gamed" by Bill McCall (Sorry Bill, your good, but not that good). If this was not the exact process that US Gypsum wanted to engage, they would have said something. I think they had a price in mind that if they could get, they would be profitable no matter what the infrastructure costs were (within their expectation from what they already knew). If the infrastructure costs were lower, then it would be gravy for USG. In any event, I sense sour grapes from USG's standpoint.
4. Some history on USG. It went into Bankruptcy in 2001 in order to try and avoid mounting asbestos claim costs. It emerged from bankruptcy in part by shutting down 1 billion square feet of high-cost wallboard plants in NY, Ohio, Iowa. (the town in Ohio had such a history with this industry that it was actually named Gypsum, Ohio!) US Gypsum also set out to eliminate 500

salaried positions. If interest rates creep up (which they will) and the new house market slows, I am concerned that US Gypsum would not complete, or would close this plant. They have plenty of other plants that can make wallboard (including a state of the art plant in Cartersville, GA.)

5. One point in favor of USG, however, does deserve mention. It has a wholly owned subsidiary L & W Distribution in SC with 185 hourly and 75 salaried personnel. That may suggest some long term commitment to SC. I wonder what similar connections American Gypsum has and why this didn't seem significant to DOC.

\*\*\*\*\*  
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=====

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=====

CC: "sdenglish@gov.sc.gov" <sdenglish@gov.sc.gov>, "bfaith@sccommerce.com" <bfaith@sccommerce.com>





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## News Release



**April 4, 2005**

### **American Gypsum Co. Locates to Georgetown County**

**Media Contact:**

Laura Varn  
Vice President  
Corporate  
Communications  
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(843) 728-0498 pager  
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[lvvarn@santeecooper.com](mailto:lvvarn@santeecooper.com)

»2005 Newsroom  
»2004 Newsroom  
»2003 Newsroom

*Governor Highlights Economic Development Efforts of State*

GEORGETOWN, S.C. - Governor Mark Sanford and officials with Santee Cooper and Georgetown County announced today a major economic development initiative with Texas-based American Gypsum Co. to build a new \$125 million gypsum wallboard plant in Georgetown County.

The announcement was made during a ceremony at Santee Cooper's Winyah Generating Station, located just south of Georgetown. The high-speed, environmentally friendly gypsum wallboard plant will be built adjacent to the generating station.

A subsidiary of Eagle Materials Inc. (NYSE: EXP and EXP.B), American Gypsum's facility will create approximately 100 direct jobs and up to 200 indirect jobs. Groundbreaking will begin in about six months with the facility becoming operational by 2007. The non-salaried positions will be between \$45,000 and \$50,000 annually, and the salaried positions will be between \$80,000 and \$85,000 annually. The wallboard plant plans to produce approximately 750 million square feet of wallboard annually.

"This is a great example of our state playing to its strengths when it comes to economic development, in this case with American Gypsum forming a mutually beneficial partnership with Santee Cooper," Gov. Sanford said. "The jobs resulting from this announcement are great news for Georgetown County, and we believe that with reforms like income tax relief, we can stimulate further jobs and investment growth here and across South Carolina." The environmental aspects of this arrangement are

significant. American Gypsum has entered into a long-term supply agreement with Santee Cooper to supply the new plant with synthetic gypsum. Santee Cooper's coal-fired power plants at Cross and Winyah will generate a synthetic gypsum byproduct as the result of using scrubbing technology to reduce sulfur dioxide emissions. By utilizing Santee Cooper's synthetic gypsum and excess steam in its gypsum wallboard production, the partners are converting waste that would otherwise be landfilled into a valuable building product.

The manufacturer will use between 550,000 to 660,000 tons of gypsum each year and 120,000 lbs. of steam each hour. This excess steam will be put to work drying wallboard in the plant. Additionally, the gypsum paper that American Gypsum uses is made from 100 percent recycled paper fiber creating a finished product from essentially 100 percent recycled materials.

"Santee Cooper is fulfilling its mission of improving the quality of life for South Carolinians and also of protecting our environment through today's announcement," said Santee Cooper President and Chief Executive Officer Lonnie Carter. "It is through economic development efforts such as this that we add value to the state."

Steve Rowley, president and chief executive officer of Eagle Materials, said, "The new wallboard plant expands American Gypsum's geographical footprint to the East. We're thrilled to be doing business in a growing state like South Carolina. This facility will allow us to better serve customers nationally with a much improved nationwide distribution network."

"We are very pleased that American Gypsum has made the decision to locate their facility in Georgetown County," said Sel Hemingway, chairman of Georgetown County Council. "We want to welcome American Gypsum to our community with open arms. This announcement is another positive sign that things are beginning to happen here in Georgetown County. All of our efforts and hard work is beginning to pay dividends."

"We are fortunate to have American Gypsum to decide to move their company to Georgetown. The Georgetown Economic Development Commission welcomes this company and is very excited that they will be investing \$125 million and creating 100 new jobs in our county," said Jim Jerow, chairman of the Georgetown County Economic Development Commission.

"This facility will help provide jobs, eliminate a waste stream, and create a significant tax base for the county and schools," said Allen Burns, Georgetown County Economic Development director. "American Gypsum has been a pleasure to work with and we

look forward to helping them make this announcement a reality."

Santee Electric Cooperative, based in Kingstree, S.C., will serve the electric load to the new facility. American Gypsum, a subsidiary of Eagle Materials Inc., is headquartered in Dallas, Texas. They are the nation's 5th largest producer of gypsum wallboard used in residential and commercial construction. Santee Cooper is South Carolina's state-owned electric and water utility and serves 143,000 residential and commercial customers in Berkeley, Georgetown and Horry counties. The utility also generates the power distributed by the state's 20 electric cooperatives to more than 640,000 customers in all 46 counties. All total, more than 1.9 million South Carolinians receive their power directly or indirectly from Santee Cooper.

**Media: Images from American Gypsum, Winyah Station, rendering and logos can be accessed at [www.santeecooper.com/press](http://www.santeecooper.com/press)**

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